**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2017**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________to

**Commission File Number: 001-38125**

# CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **81-2560811** |
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |
| **132 East Putman Avenue – Floor 2W, Cos Cob, CT** | **06807** |
| (Address of Principal Executive Offices) | (Zip Code) |

**855-398-0443**
(Registrant's Telephone Number, including Area Code)

**Not Applicable**
Former Name or Former Address, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes **x** No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes **x** No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company **x** |
| | Emerging growth company **x** |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No **x**

The number of shares of Common Stock outstanding as of May 30, 2018 totaled 11,615,692 as follows:

| Title of Each Class | |
|---|---|
| Class A Common Stock, $.0001 par value per share | 3,757,454 |
| Class B Common Stock, $.0001 par value per share* | 7,858,238 |

*Each share convertible into one share of Class A Common Stock at the direction of the holder at any time.

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**EXPLANATORY NOTE**:

Chicken Soup for the Soul Entertainment, Inc. (the “Company”) is filing this Current Report on Form 10-Q for the quarter ended March 31, 2017 (a period prior to the Company’s Initial Public Offering in August 2017) in order to provide a continuous and complete financial record from December 31, 2016, the earliest date of audited consolidated financial statements presented in the offering statement for the Company’s Initial Public Offering.

## PART I: FINANCIAL INFORMATION

**Item 1: Financial Statements**

**Chicken Soup for the Soul Entertainment, Inc.**
**Condensed Consolidated Balance Sheets**

| | March 31, 2017 (unaudited) | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 21,127 | $ 507,247 |
| Accounts receivable, net | 1,066,905 | 151,417 |
| Prepaid expenses | 364,763 | 216,397 |
| Intangible asset - video content license | 5,000,000 | 5,000,000 |
| Prepaid distribution fees | 2,273,320 | 592,786 |
| Due from affiliated companies | 2,171,089 | 1,372,517 |
| Programming costs, net | 4,326,711 | 3,977,553 |
| **Total assets** | $ 15,223,915 | $ 11,817,917 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Senior secured notes payable, net of unamortized debt discount of $352,244 and $318,992 and unamortized deferred financing costs of $20,448 and $40,902 as of March 31, 2017 and December 31, 2016, respectively | $ 4,522,308 | $ 2,610,106 |
| Senior secured notes payable under revolving line of credit to related party, net of unamortized debt discount of $156,815 and $160,667 and unamortized deferred financing costs of $1,423 and $2,845 as of March 31, 2017 and December 31, 2016, respectively | 3,641,763 | 3,316,488 |
| Accounts payable and accrued expenses | 407,020 | 694,368 |
| Accrued programming costs | 971,812 | 1,061,980 |
| Income tax payable | 346,000 | - |
| Deferred tax liability, net | 292,000 | 439,000 |
| Deferred revenue | 100,000 | 71,429 |
| **Total liabilities** | 10,280,903 | 8,193,371 |
| **Commitments and contingencies** | | |
| **Stockholders' equity** | | |
| Preferred stock, $.0001 par value, 10,000,000 shares authorized; none issued or outstanding | - | - |
| Class A common stock, $.0001 par value, 70,000,000 shares authorized; 1,042,030 and 893,369 shares, issued and outstanding, respectively | 104 | 89 |
| Class B common stock, $.0001 par value, 20,000,000 shares authorized; 8,071,955 shares issued and outstanding | 807 | 807 |
| Additional paid-in capital | 5,526,743 | 4,074,646 |
| Accumulated deficit | (584,642) | (450,996) |
| **Total stockholders' equity** | 4,943,012 | 3,624,546 |
| **Total liabilities and stockholders' equity** | $ 15,223,915 | $ 11,817,917 |

See accompanying notes to unaudited condensed consolidated financial statements.

**Chicken Soup for the Soul Entertainment, Inc.**
**Condensed Consolidated Statements of Operations**
**(unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| **Revenue:** | | |
| Television | $ 1,259,360 | $ 1,113,637 |
| Online | 157,738 | - |
| **Total revenue** | 1,417,098 | 1,113,637 |
| **Cost of revenue** | 474,206 | 502,675 |
| **Gross profit** | 942,892 | 610,962 |
| | | |
| **Operating expenses:** | | |
| Selling, general and administrative (including $132,785 and $0 of non-cash share-based compensation expense for the three months ended March 31, 2017 and 2016, respectively) | 260,008 | 112,325 |
| Management and license fees | 141,710 | 111,364 |
| **Total operating expenses** | 401,718 | 223,689 |
| | | |
| **Operating income** | 541,174 | 387,273 |
| Interest income | 6 | 1 |
| Interest expense | (475,826) | - |
| **Income before income taxes** | 65,354 | 387,274 |
| Provision for income taxes | 199,000 | 162,000 |
| **Net (loss) income** | $ (133,646) | $ 225,274 |
| **Net (loss) income per common share:** | | |
| Basic net (loss) income per common share | $ (0.01) | $ 0.03 |
| Diluted net (loss) income per common share | $ (0.01) | $ 0.03 |
| Weighted average basic shares outstanding | 9,066,034 | 8,760,000 |
| Weighted average diluted shares outstanding | 9,066,034 | 8,805,938 |

See accompanying notes to unaudited condensed consolidated financial statements.

**Chicken Soup for the Soul Entertainment, Inc**
**Consolidated Statements of Cash Flows**
**(unaudited)**

| | Three Months Ended March 31, 2017 | Three Months Ended March 31, 2016 |
|---|---|---|
| **Cash flows from Operating Activities:** | | |
| Net (loss) income | $ (133,646) | $ 225,274 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share-based compensation | 132,790 | - |
| Amortization of programming costs | 474,206 | 502,675 |
| Amortization of deferred financing costs | 21,876 | - |
| Amortization of debt discount | 364,311 | - |
| Deferred income taxes | (147,000) | 162,000 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (915,487) | - |
| Prepaid expenses and other current assets | (148,366) | (83,802) |
| Programming costs | (913,532) | (820,186) |
| Prepaid distribution fees | (1,680,534) | - |
| Accounts payable and accrued expenses | (287,399) | 636,715 |
| Income taxes payable | 346,000 | - |
| Deferred revenue | 28,571 | (3,300,000) |
| **Net cash used in operating activities** | (2,858,210) | (2,677,324) |
| **Cash flows from Investing Activities:** | | |
| (Increase) decrease in due from affiliated companies | (798,572) | 2,706,576 |
| **Net cash (used in) provided by investing activities** | (798,572) | 2,706,576 |
| **Cash flows from Financing Activities:** | | |
| Proceeds from revolving credit facility | 1,300,000 | - |
| Repayments of revolving credit facility | (980,000) | - |
| Proceeds from notes payable | 1,925,000 | - |
| Proceeds from issuance of common stock | 925,662 | - |
| **Net cash provided by financing activities** | 3,170,662 | - |
| Net (decrease) increase in cash and cash equivalents | (486,120) | 29,252 |
| Cash and cash equivalents at beginning of period | 507,247 | 4,078 |
| Cash and cash equivalents at end of the period | $ 21,127 | $ 33,330 |
| | | |
| **Supplemental data:** | | |
| Cash paid for Interest | $ 80,309 | $ - |
| Cash paid for taxes | $ - | $ - |
| **Non-cash financing activities** | | |
| Fair value of warrants issued with revolving credit facility and term notes | $ 393,711 | $ - |

See accompanying notes to unaudited condensed consolidated financial statements.

**Note 1 – The Company, Description of Business and Initial Public Offering**

Chicken Soup for the Soul Entertainment, Inc. (the "Company") is a Delaware corporation formed on May 4, 2016. CSS Productions, LLC ("CSS Productions"), the Company's predecessor and immediate parent company, was formed in December 2014 by Chicken Soup for the Soul, LLC ("CSS"), a publishing and consumer products company, and initiated operations in January 2015. The Company was formed to create a discrete entity focused on video content opportunities using the *Chicken Soup for the Soul* brand (the "Brand"). The Brand is owned and licensed to the Company by CSS. Chicken Soup for the Soul Holdings, LLC ("CSS Holdings"), is the parent company of CSS and the Company's ultimate parent company.

The Company creates and distributes video content under the Brand. The Company has an exclusive, perpetual and worldwide license from CSS to create and distribute video content under the Brand.

In May 2016, pursuant to the terms of the contribution agreement among CSS, CSS Productions and the Company (the "CSS Contribution Agreement"), all video content assets (the "Subject Assets") owned by CSS, CSS Productions and their CSS subsidiaries were transferred to the Company in consideration for its issuance to CSS Productions of 8,600,568 shares of the Company's Class B common stock. Since the date of the CSS Contribution Agreement, CSS Productions has transferred certain of these shares of Class B common stock to third parties in certain transactions. Concurrently with the consummation of the CSS Contribution Agreement, certain rights to receive payments under certain agreements comprising part of the Subject Assets owned by Trema, LLC ("Trema"), a company principally owned and controlled by William J. Rouhana, Jr., the Company's chairman and chief executive officer, were assigned to the Company under a contribution agreement (the "Trema Contribution Agreement") in consideration for the Company's issuance to Trema of 159,432 shares or our Class B common stock.

Thereafter, CSS Productions' operating activities substantially ceased and the Company continued the business operations of producing and distributing the video content.

The Company is an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected to avail itself of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

The Company operates in one reportable segment, the production and distribution of video content, and currently operates solely in the United States. The Company has entered into a distribution agreement with a company located in the United States that provides for the distribution of an episodic television series in Europe. The Company intends to do business internationally.

**Initial Public Offering of Class A Common Stock**

On August 17, 2017, the Company completed its Initial Public Offering ("IPO") of $30 million consisting of 2,500,000 shares of Class A common stock ("Class A Shares") at an offering price of $12.00 per share. The Class A Shares offered and sold in the IPO were comprised of (a) an aggregate of 2,241,983 newly issued Class A Shares and (b) an aggregate of 258,017 issued and outstanding Class A Shares that were sold by certain non-management, non-affiliated existing stockholders ("Selling Stockholder Shares"). The Company did not receive any of the proceeds from the sale of Selling Stockholder Shares.

In connection with the consummation of the IPO, the Class A Shares were approved for listing on the Nasdaq Global Market under the symbol "CSSE".

The IPO resulted in gross cash proceeds to the Company of $26.9 million and $24.0 million of net cash proceeds, after deducting cash selling agent discounts and commissions and offering expenses. The net proceeds were used to fully repay $4.1 million of senior secured notes payable ("Term Notes") and $4.5 million of senior secured notes payable under the revolving line of credit ("Credit Facility"). See Note 9. The remaining proceeds are being used for general corporate purposes including working capital, acquisition of video content and strategic transactions.

Since our IPO occurred after March 31, 2017, the date of the financial statements included in this Quarterly Report on Form 10Q, our balance sheet and cash flows do not reflect the net proceeds we derived from our IPO, nor the repayment of the Term Notes and Credit Facility noted above.

**Note 2 – Summary of Significant Accounting Policies**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's report on Form 1-A POS for the year ended December 31, 2016.

The condensed consolidated balance sheet as of December 31, 2016 included herein was derived from the audited financial statements as of that date, but does not include all disclosures, including notes, required by GAAP.

The unaudited condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company at March 31, 2017, and the results of its operations for the three months ended March 31, 2017 and 2016.

The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's report on Form 1-A POS for the years ended December 31, 2016 and 2015.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. The Company's significant estimates include those related to revenue recognition, accounts receivable allowances, intangible assets, share-based compensation expense, income taxes and programming costs. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and consist primarily of money market funds. Such investments are stated at cost, which approximates fair value.

**Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1—Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2—Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3—Valuations based on unobservable inputs reflecting our own assumptions. These valuations require significant judgment and estimates.

At March 31, 2017 and December 31, 2016, the fair value of the Company's financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and accrued programming costs, approximated their carrying value due to the short-term nature of these instruments.

**Accounts Receivable**

Accounts receivable are stated at the amounts management expects to collect. An allowance for doubtful accounts is recorded based on a combination of historical experience, aging analysis and information on specific accounts. Account balances are written off against the allowance after all means of collections have been exhausted and the potential for recovery is considered remote. Accounts are considered past due or delinquent based on contractual terms and how recently payments have been received. At March 31, 2017 and December 31, 2016, an allowance for uncollectible accounts was not considered necessary.

**Programming Costs**

Programming costs include the unamortized costs of completed, in-process, or in-development long-form and short-form video content. For video content, the Company's capitalized costs include all direct production and financing costs, capitalized interest when applicable, and production overhead.

The costs of producing video content are amortized using the individual-film-forecast method. These costs are amortized in the proportion that current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production.

For an episodic television series, the period over which ultimate revenue is estimated cannot exceed ten years following the date of delivery of the first episode, or, if still in production, five years from the date of delivery of the most recent episode, if later.

Programming costs are stated at the lower of amortized cost or estimated fair value. The valuation of programming costs is reviewed on a title-by-title basis, when an event or change in circumstances indicates that the fair value may be less than its unamortized cost and the valuation is based on a discounted cash flows ("DCF") methodology with assumptions for cash flows. Key inputs employed in the DCF methodology include estimates of a program's ultimate revenue and costs as well as a discount rate. The discount rate utilized in the DCF is based on the weighted average cost of capital of the Company plus a risk premium representing the risk associated with producing a particular program. The Company performs an annual impairment analysis for unamortized programming costs. An impairment charge is recorded in the amount by which the unamortized costs exceed the estimated fair value. Estimates of future revenue involve measurement uncertainties and it is therefore possible that reductions in the carrying value of programming costs may be required as a consequence of changes in management's future revenue estimates.

Included in cost of revenue in the condensed consolidated statements of operations for the three months ended March 31, 2017 and 2016 is amortization of programming costs totaling $474,206 and $502,675, respectively. There was no impairment charge recorded in the three months ended March 31, 2017 and 2016.

**Income Taxes**

The Company was formed on May 4, 2016 as a Sub-Chapter C corporation for federal and state tax purposes. As such, the Company filed its first tax return for the year ended December 31, 2016. CSS Productions has elected to be treated as a partnership for federal and state income tax purposes and, accordingly, no provision is made for income taxes for the taxable income included in the Company's condensed consolidated results of operations. CSS Productions has not been audited by the taxing authorities since its formation. If taxable income is adjusted as a result of an audit, then CSS Productions may be required to make distributions to satisfy its members' tax obligations. Any such distributions would not be made from, or be the responsibility of, the Company.

The Company records income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred taxes are also recognized for operating losses that are available to offset future taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company accounts for uncertain tax positions in accordance with the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740: *Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return, should be recorded in the financial statements. Pursuant to the authoritative guidance, the Company may recognize the tax benefit from an uncertain tax position only if it meets the "more likely than not" threshold that the position will be sustained on examination by the taxing authority, based on the technical merits of the position or expiration of statutes. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. In addition, the authoritative guidance addresses de-recognition, classification, interest and penalties on income taxes, accounting in interim periods, and also requires increased disclosures.

The Company includes interest and penalties related to its uncertain tax positions as part of income tax expense within its condensed consolidated statements of operations. At March 31, 2017 and December 31, 2016, the Company did not have any unrecognized tax benefits or liabilities. See Note 11.

**Long-Lived Assets**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the expected future cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

**Revenue Recognition**

The Company recognizes revenue from the production and distribution of television programs and short-form video content in accordance with Accounting Standards Codification Topic 926: *Entertainment – Films* ("ASC 926") as amended. Revenue is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, delivery has occurred, and collection of the resulting receivable is deemed probable. For episodic television programs, revenue is recognized as each episode becomes available for delivery or becomes available for broadcast, and for short-form online videos, revenue is recognized when the videos are posted to a website for viewing. Revenue from the distribution of short-form online media content is included in online revenue in the accompanying consolidated statements of operations.

Revenue generated under the distribution agreement with A Sharp, Inc., d/b/a A Plus ("A Plus") is reported on a net basis as the Company earns a commission on the distribution of A Plus' content. See Note 12.

Cash advances received by the Company are recorded as deferred revenue until all the conditions of revenue recognition have been met.

**Share-based Payments**

The Company accounts for share-based payments in accordance with ASC 718: *Share-based Compensation*, which establishes the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Under the provisions of the authoritative guidance, share-based compensation expense is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite service period, net of estimated forfeitures. Shares issued for services are based upon current selling prices of the Company's Class A common stock or independent third-party valuations.

The Company estimates the fair value of share-based instruments using the Black-Scholes option-pricing model. All share-based awards are fulfilled with new shares of Class A common stock. For the three months ended March 31, 2017, share-based awards were issued to non-employee directors and individuals for services rendered and were recorded at fair value.

**Advertising Costs**

Advertising costs are expensed as incurred. The Company did not incur any advertising costs in the three months ended March 31, 2017 and 2016.

**Earnings Per Share**

Basic net earnings or net loss per common share is computed based on the weighted average number of shares of all classes of common stock outstanding.

Diluted earnings per common share is computed based on the weighted average number of common shares outstanding increased, when applicable, by dilutive common stock equivalents, comprised of Class W warrants, Class Z warrants and stock options outstanding.

In computing the effect of dilutive common stock equivalents, the Company uses the treasury stock method to calculate the related incremental shares. In applying the treasury stock method, the Company assumed a share price of $12 per share based on the price of its Class A common stock in its IPO. See Note 6.

**Concentration of Credit Risk**

The Company maintains cash balances at its bank. Accounts for each entity are insured by the Federal Deposit Insurance Corporation subject to certain limitations. At various times during the fiscal year, the Company's cash in bank balances exceeded the federally insured limits. There were no uninsured balances as of March 31, 2017.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash in bank, revenue and accounts receivable. Concentrations of credit risk with respect to accounts receivable and revenue are significant due to the small number of customers comprising the Company's customer base.

For the three months ended March 31, 2017, we had 2 customers, which accounted for 86% of our total revenue (the largest of which accounted for 74%).

**Note 3 – Recent Accounting Pronouncements**

In May 2017, the FASB issued Accounting Standards Update ("ASU") 2017-09, *Compensation – Stock Compensation Topic 718: Scope of Modification Accounting*, which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as a modification.

ASU 2017-09 is intended to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Under this guidance, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions and balance sheet classification remain the same before and after the change.

ASU 2017-09 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 for all entities. Early adoption is permitted. The Company has adopted ASU 2017-09 in the last quarter of 2017 on a prospective basis and the impact on its consolidated financial statements was not material.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which amends the guidance of FASB ASC Topic 805, Business Combinations (ASC 805) adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (disposals) of assets or businesses.

The objective of ASU 2017-01 is to narrow the definition of what qualifies as a business under Topic 805 and to provide guidance for streamlining the analysis required to assess whether a transaction involves the acquisition (disposal) of a business. ASU 2017-01 provides a screen to assess when a set of assets and processes do not qualify as a business under Topic 805, reducing the number of transactions that need to be considered as possible business acquisitions. ASU 2017-01 also narrows the definition of output under Topic 805 to make it consistent with the description of outputs under Topic 606. The guidance of ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and early adoption is permitted under certain circumstances. The Company has adopted ASU 2017-01 on a prospective basis and the impact on its consolidated financial statements was not material.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. For public entities, this standard is effective for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). For all other entities, this standard is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments may be applied retrospectively to each prior period (full retrospective) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). Being an emerging growth company, the Company will adopt ASU 2014-09 in the first quarter of 2019 and apply the modified retrospective approach. Because the Company's primary source of revenue is from episodic television shows when each episode becomes available for delivery and available for broadcast, and multi-film sales when available for initial exploitation by customers, the Company does not expect the impact on its consolidated financial statements to be material.

**Note 4 – Episodic Television Programs**

***(a)*** In September 2014, CSS and a charitable foundation (the “Foundation”) entered into an agreement under which the Foundation agreed to sponsor a Saturday morning family television show, *Chicken Soup for the Soul’s Hidden Heroes (“Hidden Heroes”)*, a half-hour hidden-camera family friendly show that premiered on the CBS Television Network (“CBS”). The Foundation is a not-for-profit charity that promotes tolerance, compassion and respect. As of the date of filing of this Current Report on Form 10-Q, the Foundation has funded three seasons of the show and has an option to fund the series for a fourth season.

***(b)*** In September 2015, CSS Productions received corporate sponsorship funding from a company (the “Sponsor”), to develop the Company’s second episodic television series entitled *Project Dad, a Chicken Soup for the Soul Original* (“*Project Dad*”). *Project Dad* presents three busy celebrity dads as they put their careers on the “sidelines” and get to know their children like never before.

The *Project Dad* slate was comprised of eight, one-hour episodes that aired weekly on Discovery Communications, LLC’s Discovery Life network in November and December 2016. In addition, in January 2017, *Project Dad* began airing on Discovery Communications, LLC’s TLC network.

In 2017, the Sponsor funded a new parenting series called *Being Dad*, our third episodic television show, comprised of eight, one-hour episodes that were available for delivery and available for broadcast in the fourth quarter of 2017 and will begin airing on Netflix in 2018.

In accordance with ASC 926 as amended, the Company recognized revenue for the *Hidden Heroes* and *Project Dad* series as the episodes became available for delivery and broadcast.

***(c)*** On June 20, 2017, the Company entered into an agreement with HomeAway.com and received corporate sponsorship funding for our fourth episodic television series entitled *Vacation Rental Potential*. This series comprised of ten, 30-minute episodes, aired on the A&E Network in November and December 2017. The show gives viewers the information needed to obtain their dream vacation home. HomeAway.com has agreed to fund a second season of *Vacation Rental Potential.*

**Note 5 – Share-Based Compensation**

Effective January 1, 2017, the Company adopted the 2017 Long Term Incentive Plan (the “Plan”) to attract and retain certain employees. The Plan provides for the issuance of up to one million common stock equivalents subject to the terms and conditions of the Plan. The Plan generally provides for quarterly and bi-annual vesting over terms ranging from two to three years. The Company accounts for the Plan as an equity plan.

The Company recognized these stock options at fair value determined by applying the Black Scholes options pricing model to the grant date market value of the underlying common shares of the Company. The compensation expense associated with these stock options is amortized on a straight-line basis over their respective vesting periods.

For the three months ended March 31, 2017, the Company recognized $116,600 of non-cash share-based compensation expense in selling, general and administrative expense in the condensed consolidated statements of operations. There were 44,167 stock options vested at March 31, 2017.

Stock options activity as of March 31, 2017 is as follows:

| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (Yrs.) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Total outstanding at December 31, 2016 | - | $ - | - | $ - |
| Options granted | 455,000 | 6.83 | 4.80 | - |
| Options exercised | - | - | - | - |
| Actual options forfeited | - | - | - | - |
| Options expired | - | - | - | - |
| Total outstanding at March 31, 2017 | 455,000 | $ 6.83 | 4.80 | $ - |
| Total exercisable at March 31, 2017 | 44,167 | $ 6.64 | 4.76 | $ - |
| Total unvested at March 31, 2017 | 410,833 | $ 6.85 | 4.80 | $ - |
| Total vested or expected to vest - March 31, 2017 | 455,000 | $ 6.83 | 4.80 | $ - |

As of March 31, 2017 the Company had unrecognized pre-tax compensation expense of $1,083,450 related to non-vested stock options under the Plan of which $403,355, $535,517, $129,017 and $15,561 will be recognized in 2017, 2018, 2019 and 2020, respectively.

The following table summarizes unvested stock options as of March 31, 2017:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Total unvested - December 31, 2016 | - | $ - |
| Granted | 455,000 | 6.83 |
| Vested | (44,167) | 6.64 |
| Cancellations | - | - |
| Total unvested - March 31, 2017 | 410,833 | $ 6.85 |

Assumptions used in calculating the fair value of the stock options granted during 2017 are summarized below:

| | | Weighted Average as of March 31, 2017 |
|---|---|---|
| **Weighted Average Assumptions:** | | |
| Expected dividend yield | | 0% |
| Expected equity volatility | | 57% |
| Expected term (years) | | 2.34 |
| Risk-free interest rate | | 1.94% |
| Exercise price per stock option | $ | 6.83 |
| Market price per share | $ | 5.78 |
| Weighted average fair value per stock option | $ | 2.64 |

The risk-free rate is based on the implied yield available on US Treasury constant maturities with remaining terms equivalent to the respective expected terms of the options. The Company estimates expected terms for stock options awarded to employees using the simplified method in accordance with ASC 718, *Stock Compensation*, because the Company does not have sufficient relevant information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for stock options using the contractual term. Expected volatility is calculated based on the Company's peer group because the Company does not have sufficient historical data and will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants.

The Company also awards common stock grants to directors. For the three months ended March 31, 2017 and 2016, the Company recognized in selling, general and administrative expense, non-cash share-based compensation expense of $16,185 and $0, respectively.

In January 2018, the Company's board of directors approved an increase, subject to stockholder approval, to the number of shares available for grant pursuant to the Plan to 1,250,000 shares from 1,000,000 shares.

**Note 6 - Earnings Per Share**

A reconciliation of shares used in calculating basic and diluted per share data is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Basic weighted-average shares outstanding | 9,066,034 | 8,760,000 |
| Effect of dilutive securities: | | |
| Assumed issuance of shares from exercise of stock options (a) | - | - |
| Assumed issuance of shares from exercise of warrants (a) | - | 45,938 |
| Diluted weighted-average shares outstanding | 9,066,034 | 8,805,938 |

(a) The additional shares from the exercise of stock options and warrants for the three months ended March 31, 2017 are anti-dilutive in nature, and as a result are excluded from the determination of diluted weighted-average shares outstanding.

**Note 7 – Programming Costs**

Programming costs, net of amortization, consists of the following:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Released, net of accumulated amortization of $4,276,169 and $3,801,963, respectively | $ 3,453,169 | $ 3,228,440 |
| In production | 157,472 | 100,000 |
| In development | 716,070 | 649,113 |
| | $ 4,326,711 | $ 3,977,553 |

**Note 8 – Intangible Asset - Video Content License**

The Company has been granted a perpetual, exclusive license from CSS to utilize the Brand and related content, for visual exploitation on a worldwide basis ("Perpetual License"). In granting the Perpetual License, CSS required an initial purchase price of $5,000,000, which approximated its costs to CSS, and was paid by the Company during 2016. The Company has recorded the initial purchase price of the Perpetual License at the estimated cost to CSS in its consolidated balance sheets.

**Note 9 – Senior Secured Notes Payable and Senior Secured Revolving Line of Credit**

**Senior Secured Notes Payable**
From July 2016 through May 2017, the Company sold in a private placement ("Debt Private Placement") $5,000,000 aggregate principal amount of 5% Term Notes and Class W warrants to purchase an aggregate of 460,000 shares of Class A common stock at $7.50 per share (the "Warrants").

The Term Notes ranked *pari passu* with the Credit Facility and senior to any existing or future indebtedness of the Company. The Term Notes were secured by a first priority security interest and lien on all tangible and intangible assets of the Company, and was subject to an intercreditor agreement with respect to the Credit Facility.

As discussed in Note 14, the Term Notes were repaid in full on August 18, 2017 from the proceeds of the IPO.

The Term Notes and the Warrants were accounted for in accordance with Accounting Standards Codification Topic 470: *Debt* ("ASC 470") which provides, among other things, that the fair value is allocated between the debt and the related warrants. The Warrants are exercisable at any time prior to March 31, 2021 and are callable under certain circumstances, but in no event prior to January 31, 2018.

The fair value of the Warrants was determined to be $1,079,360 using the Black-Scholes option-pricing model and the relative fair value of the warrants was recorded as a discount to the Term Notes with a corresponding credit to additional paid-in capital.

For the three months ended March 31, 2017, amortization of the debt discount of $283,266, amortization of deferred financing costs of $20,454, cash and accrued interest expense paid on the Term Notes of $48,903 is included in interest expense in the accompanying condensed consolidated statement of operations.

Officers of the Company and of CSS, and their family members, participated in the Debt Private Placements on the same terms and conditions as other investors. See Note 12.

**Senior Secured Revolving Line of Credit**
On May 12, 2016, the Company entered into a Senior Secured Revolving Line of Credit (the "Credit Facility") with a company principally owned and controlled by William J. Rouhana, Jr., the Company's chief executive officer and chairman (the "Lender"). Under the amended terms of the Credit Facility, the Company could borrow up to an aggregate of $4,500,000 until January 2, 2019.

Advances made under the Credit Facility were used for working capital and general corporate purposes, and were used in part, for payments in 2016 due to CSS pursuant to the license agreement with the Company.

On April 27, 2018, the Company entered into a commercial loan agreement with a bank ("Commercial Loan"). As described in Note 16 – *Subsequent Events*, simultaneously with the closing of the Commercial Loan, the principal balance due under the Credit Facility of $1.7 million was repaid in full and the Credit Facility was terminated by the Company and the Lender. As of March 31, 2018, the principal balance due under the Credit Facility was $1.5 million.

Borrowings under the Credit Facility bore interest at 5% per annum and an annual fee equal to 0.75% of the unused portion of the Credit Facility, payable monthly in arrears in cash.

In connection with the Credit Facility, the Company issued Class W warrants to the Lender to purchase 157,500 shares of the Company's Class A common stock at an exercise price of $7.50 per share. All Warrants issued to the Lender expire on May 12, 2021 and are accounted for as equity warrants.

The Credit Facility and the related warrants are accounted for in accordance with ASC 470, which provides, among other things, that the fair value is allocated between the debt and the related warrants. The fair value of the warrants issued was determined to be $424,025 using the Black-Scholes option-pricing model and the relative fair value of the warrants was recorded as a discount to the Credit Facility with a corresponding credit to additional paid-in capital.

For the three months ended March 31, 2017, amortization of the debt discount of $81,045, amortization of deferred financing costs of $1,422, cash and accrued interest expense paid on the Credit Facility of $40,737 is included in interest expense in the accompanying condensed consolidated statement of operations.

## Note 10 – Stockholders' Equity

### Equity Structure

The Company is authorized to issue 70,000,000 shares of Class A common stock, par value $0.0001 ("Class A Stock"), 20,000,000 shares of Class B common stock, par value $.0001 ("Class B Stock"), and 10,000,000 shares of preferred stock, par value $.0001. As of March 31, 2017, and December 31, 2016, the Company had 1,042,030 and 893,369 shares of Class A Stock outstanding, respectively, and 8,071,955 shares of Class B Stock outstanding. There are no shares of preferred stock outstanding. Each holder of Class A Stock is entitled to one vote per share while holders of Class B Stock are entitled to ten votes per share.

### Recapitalization

As described in Note 1, in May 2016, pursuant to the terms of the CSS Contribution Agreement, the Company issued 8,600,568 shares of the Company's Class B common stock as consideration paid for all video content assets owned by CSS, CSS Productions and their CSS subsidiaries. CSS Productions transferred certain of these shares of Class B common stock to third parties.

Concurrently with the consummation of the CSS Contribution Agreement, certain rights to receive payments under certain agreements comprising part of the Subject Assets owned by Trema, were assigned to the Company under a the Trema Contribution Agreement in consideration for the Company's issuance to Trema of 159,432 shares or our Class B common stock. The Company recorded $16 par value of common stock and $792,000 of additional paid-in capital as of March 31, 2017.

### Equity Private Placements

Between June 2016 and May 2017, the Company sold Class A common stock in two private placements. From June 2016 through November, 2016, the Company sold in a private placement (the "2016 Equity Private Placement") a total of 17,096 units with aggregate proceeds of $1,025,760, consisting of an aggregate of 170,960 shares of Class A common stock and Warrants to purchase an aggregate of 51,288 shares of Class A common stock.

The purchase price of each unit was $60 and each unit consisted of 10 shares of Class A common stock and 3 Warrants exercisable at $7.50 each. The Warrants are exercisable at any time prior to March 31, 2021 and are accounted for as equity warrants. The Warrants are callable under certain circumstances, but in no event prior to January 31, 2018.

From November 2016 and through May 2017, the Company sold in a private placement (the "2017 Equity Private Placement") a total of 15,011 units with aggregate proceeds of $975,710 consisting of an aggregate of 150,112 shares of Class A common stock and Warrants to purchase an aggregate of 45,034 shares of Class A common stock.

The purchase price of each unit was $65 and each unit consisted of 10 shares of Class A common stock and 3 Warrants exercisable at $7.50 each. The Warrants are exercisable at any time prior to March 31, 2021 and are accounted for as equity warrants. The Warrants are callable under certain circumstances, but in no event prior to January 31, 2018.

Family members of officers of the Company and of CSS have participated in the 2016 Equity Private Placement and the 2017 Equity Private Placement on the same terms and conditions as other investors (see Note 12).

In two separate transactions, other parties purchased a total of 55,000 shares of Class A common stock and Warrants to purchase an aggregate of 50,000 shares of Class A common stock. Total proceeds to the Company was $487,500.

**Note 11 – Income Taxes**

The Company's provision for income taxes consists of federal and state taxes, as applicable, in amounts necessary to align the Company's year-to-date tax provision with the effective rate it expects to achieve for the full year.

For the three months ended March 31, 2017 and 2016, the Company recorded an income tax provision of $199,000 and $162,000, respectively, consisting of federal and state taxes currently payable and deferred. The effective tax rate for the three months ended March 31, 2017 and 2016 was 304% and 42%, respectively. For the three months ended March 31, 2017, the Company's consolidated statement of operations includes amortization of debt discounts included in interest expense. The amortization of debt discounts is deemed to be non-deductible for federal and state income tax purposes, creating a higher effective tax rate for the three months ended in 2017.

**Note 12 – Related Party Transactions**

**(a) Affiliate Resources and Obligations**
In May 2016, the Company entered into agreements with CSS and affiliated companies that provide the Company with access to important assets and resources as described below (the "2016 Agreements"). The 2016 Agreements include a management services agreement and a license agreement. A summary of the 2016 Agreements is as follows:

***Management Services Agreement***
The Company is a party to a Management Services Agreement with CSS (the "Management Agreement"). Under the terms of the Management Agreement, the Company is provided with the operational expertise of the CSS companies' personnel, including its chief executive officer.

Pursuant to the Management Agreement, the Company also receives other services, including accounting, legal, marketing, management, data access and back office systems, and requires CSS to provide office space and equipment usage.

Under the terms of the Management Agreement, commencing with the fiscal quarter ended March 31, 2016, the Company has paid a quarterly fee to CSS equal to 5% of the gross revenue as reported under GAAP for each fiscal quarter. Since the completion of the IPO in August 2017, the Company reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the quarterly fee is based on gross revenue as reported in the applicable public filing under the Exchange Act for each fiscal quarter. For the three months ended March 31, 2017 and 2016, the Company recorded management fee expense of $70,855 and $55,682, respectively, payable to CSS. Each quarterly amount due shall be paid on or prior to the later of the $45^{th}$ day after the end of such quarter, or the $10^{th}$ day after the filing of the applicable Exchange Act report for such quarter.

In addition, for any sponsorship that is arranged by CSS for the Company's video content or that contains a multi-element transaction for which the Company receives a portion of such revenue and CSS receives the remaining revenue (for example, a transaction that relates to both video content and CSS's printed products), the Company shall pay a sales commission to CSS equal to 20% of the portion of such revenue earned. Each sales commission shall be paid within 30 days of the end of the month in which received. If CSS actually collects the Company's portion of such fee, CSS will remit the revenue due to the Company after deducting the sales commission. There were no sales commissions earned or paid to CSS during the three months ended March 31, 2017 and 2016.

The term of the Management Agreement is five years, with automatic one-year renewals thereafter unless either party elects to terminate by delivering written notice at least 90 days prior to the end of the then current term. The Management Agreement is terminable earlier by either party by reason of certain prescribed and uncured defaults by the other party. The Management Agreement will automatically terminate in the event of the Company's bankruptcy or a bankruptcy of CSS or if the Company no longer has licensed rights from CSS under the License Agreement described below.

***License Agreement***
The Company is a party to a trademark and intellectual property license agreement with CSS (the "License Agreement"). Under the terms of the License Agreement, the Company has been granted a perpetual, exclusive license to utilize the Brand and related content, such as stories published in the *Chicken Soup for the Soul* books, for visual exploitation worldwide.

In consideration of the License Agreement, in May 2016 the Company paid to CSS a one-time license fee of $5,000,000, comprised of a $1,500,000 cash payment and the concurrent issuance to CSS of the CSS License Note, having a principal amount of $3,500,000 and bearing interest at 0.5% per annum (the "Note"). The Note provided that it could be prepaid at any time in the discretion of the Company. The Note was repaid in full by September 16, 2016.

Under the terms of the License Agreement, commencing with the fiscal quarter ended March 31, 2016, the Company also pays an incremental recurring license fee to CSS equal to 4% of gross revenue as reported under GAAP for each fiscal quarter. Since the completion of the IPO in August 2017, the Company reports under the Exchange Act, and the quarterly fee is based on gross revenue as reported in the applicable public filing under the Exchange Act for each fiscal quarter.

In addition, CSS provides marketing support for the Company's productions through its email distribution, blogs and other marketing and public relations resources. Commencing with the fiscal quarter ended March 31, 2016, the Company shall pay a quarterly fee to CSS equal to 1% of gross revenue as reported under GAAP for each fiscal quarter for such support. For the three months ended March 31, 2017 and 2016, the Company recorded license fee expense of $70,855 and $55,682, respectively, payable to CSS.

***(b)* Distribution Agreement with A Plus**
In September 2016, a wholly-owned subsidiary of CSS acquired a majority of the issued and outstanding common stock of A Plus. A Plus develops and distributes high quality, empathetic short-form videos and articles to millions of people worldwide. A Plus is a digital media company founded, chaired, and partially owned by actor and investor Ashton Kutcher. Mr. Kutcher owns 23%, third parties own 2%, and the CSS subsidiary owns 75% of A Plus.

In September 2016, the Company entered into a distribution agreement with A Plus (the "A Plus Distribution Agreement"). The A Plus Distribution Agreement has an initial term ending in September 2023.

Under the terms of the A Plus Distribution Agreement, the Company has the exclusive worldwide rights to distribute all video content (in any and all formats) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus.

Under the terms of the A Plus Distribution Agreement, the Company was obligated to pay A Plus an advance of $3,000,000 by March 31, 2017 (the "A Plus Advance") which was recorded as prepaid distribution fees in the consolidated balance sheet.

The Company is entitled to retain a net distribution fee of 30% (40% while any portion of the A Plus Advance remains outstanding) of gross revenue generated by the distribution of A Plus video content and 5% (15% while any portion of the A Plus Advance remains outstanding) of gross revenue generated by the distribution of A Plus editorial content. The Company recoups the A Plus Advance by retaining the portion of gross revenue otherwise payable by the Company to A Plus under the A Plus Distribution Agreement and applying same to the recoupment of the A Plus Advance.

The Company will not pay A Plus its portion of gross revenue until such time as the A Plus Advance has been recouped in full. At March 31, 2017 and December 31, 2016, prepaid distribution fees were $2,273,320 and $592,786, respectively.

Online revenue in the Company's condensed consolidated statement of operations for the three months ended March 31, 2017 includes $86,310 and $0, respectively, of net distribution fees earned by the Company under the A Plus Distribution Agreement.

***(c)* Debt Private Placement and Equity Private Placements**
Officers of the Company and of CSS, and their family members ("Related Parties"), made purchases under the Debt Private Placement, the 2016 Equity Private Placement, and the 2017 Equity Private Placement on the same terms and conditions as offered to other investors. Prior to the IPO, Related Parties purchased $1,413,140 under the 2017 Equity Private Placement and $2,030,000 under the Debt Private Placement. A portion of the net proceeds received from the IPO were used to fully repay the Term Notes sold in the Debt Private Placement.

***(d)* Consulting Agreement**
CSS Productions had a consulting agreement with Low Profile Films, Inc. ("Low Profile"). Low Profile provided executive production services for the Company that included all activities necessary to establish and maintain relationships regarding CSS Productions proposed feature length film, a possible talk show and, Low Profile was to oversee the production to facilitate the public viewing or distribution of same. The owner of Low Profile is the son of the Company's chairman and chief executive officer.

The Company's agreement with Alcon for a feature length film expired on July 15, 2016 and as a result, the Company and Low Profile mutually agreed to terminate the executive production services agreement as of July 15, 2016. For the three months ended March 31, 2017 and 2016, the Company paid Low Profile $35,000 and $15,000, respectively, for services provided, which are included in selling, general and administrative expenses in the accompanying condensed consolidated statement of operations.

**Note 13 - Commitments and Contingencies**

In the normal course of business, from time-to-time, the Company may become subject to claims in legal proceedings. Legal proceedings are subject-to inherent uncertainties, and an unfavorable outcome could include monetary damages, and in such event, could result in a material adverse impact on the Company's business, financial position, results of operations, or cash flows.

**Note 14 – Subsequent Events**

**Commercial Loan**
On April 27, 2018, the Company closed on the Commercial Loan. The Commercial Loan provides the Company both a term loan facility and a revolving line of credit facility totaling $7.5 million, to be used for working capital and other purposes. The term loan of $5.0 million was advanced to the Company at closing. The term loan bears interest at a rate of 5.75% per annum and is payable monthly together with principal, over a five-year period.

The revolving line of credit of $2.5 million bears interest at the prime rate plus 1.5% per annum, and interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due. Approximately $2.2 million of the revolving line of credit was advanced to the Company at closing. Simultaneously with the closing of the Commercial Loan, the principal balance due under the Credit Facility of $1.7 million was repaid in full and the Credit Facility was terminated by the Company and the Lender.

**Repurchase Program**

As described in Note 1, *Initial Public Offering of Class A Common Stock"* and as described below, on August 17, 2017, the Company completed its IPO. On March 27, 2018, the board of directors of the Company approved a stock repurchase program (the "Repurchase Program") that enables the Company to repurchase up to $5.0 million of its Class A common stock prior to April 30, 2020. All repurchases under the Repurchase Program shall be made in compliance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the "Act").

Under the Repurchase Program, the Company may purchase its shares of Class A common stock through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. The Repurchase Program may be modified, suspended or terminated at any time by the Company's board of directors. Repurchases under the Repurchase Program will be funded from the Company's existing cash and cash equivalents or future cash flow and equity or debt financings.

As of May 30, 2018, the Company has repurchased, subject to the maximum amounts permitted under the Act, 41,949 shares of its Class A common stock pursuant to the Repurchase Program.

**Acquisition of Screen Media**

On November 3, 2017, the Company acquired all of the membership interests of Screen Media Ventures, LLC ("Screen Media") for approximately $4.9 million in cash and the issuance of 35,000 shares of the Company's Class A common stock and Class Z warrants of the Company exercisable into 50,000 shares of the Company's Class A common stock at $12 per share (the "Acquisition"). Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service and distributes television series and films worldwide.

In accordance with ASC 805, "*Business Combinations*", the Acquisition was accounted for by applying the acquisition method of accounting, which requires, among other things, that the assets acquired and the liabilities assumed in a business combination be measured at their fair values as of the closing date of the transaction.

**Initial Public Offering of Class A Common Stock**

As discussed in Note 1, "*Initial Public Offering of Class A Common Stock"*, on August 17, 2017, the Company completed its IPO of $30 million consisting of 2,500,000 shares of Class A Shares at an offering price of $12.00 per share. In connection with the consummation of the IPO, the Class A Shares were approved for listing on the Nasdaq Global Market under the symbol "CSSE".

The IPO resulted in gross cash proceeds to the Company of $26.9 million and $24.0 million of net cash proceeds, after deducting cash selling agent discounts and commissions and offering expenses. The net proceeds were used to fully repay $4.1 million of Term Notes and $4.5 million of senior secured notes payable under the Credit Facility. The remaining proceeds are being used for general corporate purposes including working capital, acquisition of video content library and strategic transactions.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our consolidated financial condition and results of operations should be read should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's report on Form 1-A POS as submitted to the Securities and Exchange Commission ("SEC") on August 8, 2017 ("Form 1-A POS"). Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, includes forward-looking statements involving risks and uncertainties and should be read together with the "Risk Factors" section of our report on Form 1-A POS for a discussion of important factors which could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

**Forward-Looking Statements**

This Quarterly Report contains forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding expectations, intentions and strategies regarding the future. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The words "target," "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "possible," "potential," "predicts," "project," "should," "would" and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this Report are based on current expectations and beliefs concerning future developments and their potential effects on our company and its subsidiaries. There can be no assurance that future developments will be those that have been anticipated. These forward-looking statements involve many risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Important factors that may affect our actual results include:

- our limited operating history;
- our financial performance, including our ability to generate revenue;
- ability of our content offerings to achieve market acceptance;
- success in retaining or recruiting, or changes required in, our officers, key employees or directors;
- potential ability to obtain additional financing when and if needed;
- ability to protect our intellectual property;
- ability to complete strategic acquisitions;
- ability to manage growth and integrate acquired operations;
- potential liquidity and trading of our securities;
- regulatory or operational risks;
- our inability to pay dividends if we fall out of compliance with our loan covenants in the future and then are prohibited by our bank lender from paying dividends; and
- the time during which we will be an Emerging Growth Company ("EGC") under the Jumpstart Our Business Startups Act of 2012, or JOBS Act.

*You should refer to the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 as submitted to the SEC on March 29, 2018 ("Form 10-K"), for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. You should read this Quarterly Report on Form 10-Q and the documents we have filed as exhibits to this Quarterly Report on Form 10-Q and the Form 10-K, completely and with the understanding our actual future results may be materially different from what we expect, or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.*

**Recent Developments**

**Material Changes to the Business**

As described below, two significant events occurred after March 31, 2017 that has dramatically and materially improved our financial position, our liquidity, and our results of operations. These events have provided us with an improved positive outlook for accomplishing our goals. These events are: the completion of the Initial Public Offering of our Class A common stock ("IPO") in August 2017, and our acquisition of Screen Media Ventures, LLC ("Screen Media") in November 2017. As such, this *Management's Discussion and Analysis of Financial Condition and Results of Operations* should be read in conjunction with our Form 10-K and our Current Report on Form 10-Q for the period ended March 31, 2018.

**Initial Public Offering of Shares of Class A Common Stock**

On August 17, 2017, we completed our IPO of $30 million consisting of 2,500,000 shares of Class A common stock ("Class A Shares") at an offering price of $12.00 per share. The Class A Shares offered and sold in the IPO were comprised of (a) an aggregate of 2,241,983 of our newly issued Class A Shares and (b) an aggregate of 258,017 issued and outstanding Class A Shares that were sold by certain non-management, non-affiliated existing stockholders ("Selling Stockholder Shares"). We did not receive any of the proceeds from the sale of Selling Stockholder Shares.

In connection with the completion of our IPO, the Class A Shares was approved for listing on the Nasdaq Global Market under the symbol "CSSE".

Our IPO resulted in gross cash proceeds to the Company of $26.9 million and $24.6 million of net cash proceeds, after deducting cash selling agent discounts and commissions and offering expenses. The net proceeds were used to fully repay $4.1 million of senior secured notes payable ("Term Notes") and $4.5 million of senior secured notes payable under the revolving line of credit ("Credit Facility"). The remaining proceeds will be used by us for general corporate purposes including working capital, acquisition of video content and strategic transactions.

Since our IPO occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our balance sheet and cash flows do not reflect the net proceeds we derived from our IPO, nor the repayment of the Term Notes and Credit Facility noted above.

**Acquisition of Screen Media**

On November 3, 2017, the Company acquired all of the membership interests of Screen Media for approximately $4.9 million in cash and the issuance of 35,000 shares of the Company's Class A common stock and Class Z warrants of the Company exercisable into 50,000 shares of the Company's Class A common stock at $12 per share (the "Acquisition"). Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service and distributes television series and films worldwide.

In accordance with ASC 805, "*Business Combinations*" ("ASC 805"), the Acquisition was accounted for by applying the acquisition method of accounting, which requires, among other things, that the assets acquired and the liabilities assumed in a business combination be measured at their fair values as of the closing date of the transaction.

Since the Acquisition occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our consolidated balance sheet, statements of operations and cash flows do not reflect Screen Media's results of operations.

**Commercial Loan**

On April 27, 2018, we closed on a commercial loan agreement with a bank (the "Commercial Loan"). The Commercial Loan provides us both a term loan facility and a revolving line of credit facility totaling $7.5 million, to be used by us for working capital and other purposes. The term loan of $5.0 million was advanced to us at closing. The term loan bears interest at a rate of 5.75% per annum and is payable monthly together with principal, over a five-year period.

The revolving line of credit of $2.5 million bears interest at the prime rate plus 1.5% per annum, and interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due. Approximately $2.2 million of the revolving line of credit was advanced to us at closing.

On May 12, 2016, we entered into a Senior Secured Revolving Line of Credit (the "Credit Facility") with a company principally owned and controlled by William J. Rouhana, Jr., the Company's chief executive officer and chairman. Simultaneously with the closing of the Commercial Loan, the principal balance due under the Credit Facility of $1.7 million was repaid in full and the Credit Facility was terminated by the parties. As of March 31, 2018, the principal balance due under the Credit Facility was $1.5 million.

Since our Commercial Loan occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our balance sheet and cash flows do not reflect the net proceeds we derived from the Commercial Loan.

**Repurchase Program**

On March 27, 2018, our board of directors approved a stock repurchase program (the "Repurchase Program") that enables us to repurchase up to $5 million of our Class A common stock prior to April 30, 2020. All repurchases under the Repurchase Program shall be made in compliance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the "Act").

Under the Repurchase Program, we may purchase shares of Class A common stock through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. The Repurchase Program may be modified, suspended or terminated at any time by our board of directors. Repurchases under the Repurchase Program will be funded from our existing cash and cash equivalents or future cash flow and equity or debt financings.

As of May 30, 2018, we have repurchased, subject to the maximum amounts permitted under the Act, 41,949 shares of our Class A common stock pursuant to the Repurchase Program.

**Business**

We curate, produce and distribute long and short-form video content that brings out the best of the human spirit, and distribute the online content of our affiliate, A Sharp, Inc. d/b/a A Plus ("A Plus"). We are aggressively growing our business through a combination of organic growth, licensing and distribution arrangements, acquisitions, and strategic relationships. We are also expanding our partnerships with sponsors, television networks and independent producers.

We have an exclusive, perpetual and worldwide license from our parent, CSS, a publishing and consumer products company, to create and distribute video content under the *Chicken Soup for the Soul®* brand (the "Brand").

Since our inception in January 2015, our business has grown rapidly. As described below in "*Use of Non-GAAP Financial Measure*", we use Adjusted EBITDA as an important metric for management. Summary data is as follows:

For the three months ended March 31, 2017, our total revenue was $1.4 million, as compared to 2016 total revenue for the same period of $1.1 million. This increase was due to an increase in the number of episodes of our television series that were available for delivery or available for broadcast. Adjusted EBITDA was $0.7 million for the three months ended March 31, 2017, as compared to Adjusted EBITDA of $0.4 million for the three months ended March 31, 2016.

For the years ended December 31, 2016 and 2015, our summary data is as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Total revenue | $ 8,118,632 | $ 1,506,818 |
| Net income (loss) | 781,133 | (753,463) |
| Adjusted EBITDA | 3,776,673 | 38,524 |

Our plan is to use our solid core of television and short-form video production and our acquired television and film distribution activities to support the development and growth of a powerful portfolio of online VOD networks. We will seek to opportunistically acquire assets such as content libraries, digital publishers with content related to our own, and stand-alone VOD networks.

**Television**

We utilize the *Chicken Soup for the Soul* brand, together with our management's industry experience and expertise, to generate revenue through the production and distribution of video content. We work with sponsors and use highly-regarded independent producers to develop and produce video content. Using this approach provides us with access to a diverse pool of creative ideas for new video content projects and allows us to scale our business on a variable cost basis. We currently have producer agreements or arrangements in place with a number of these producers, including Litton Entertainment (a Hearst company). We anticipate entering into relationships with additional independent producers.

We seek committed funding from corporate and foundation sponsors covering more than the production costs prior to moving forward with a project. Since we seek to secure both the committed funding and production capabilities for our video content prior to moving forward with a project, we have high visibility into the profitability of a particular project before committing to proceed with such project. In addition, we take limited financial risk on developing our projects.

Corporate and foundation sponsors with which we work include HomeAway, Hilton Grand Vacations, American Humane, BISSELL Homecare, Inc., the Boniuk Foundation, Michelson Found Animals Foundation and the Morgridge Family Foundation, and we are currently in discussions with numerous others. We generally retain meaningful back-end rights to our video content in these relationships, which provides opportunities for improved profitability and enhances our library value.

Our long-form video content consists of 30- to 60-minute episodic programs typically distributed initially on traditional television or cable networks.

**Online**

We derive online revenue from our exclusive distribution relationship with A Plus, our affiliate, which develops and distributes high-quality, empathetic short-form videos and articles to millions of people worldwide. Our distribution relationship with A Plus allows us to accelerate the growth of our offering by providing us with content developed and distributed by A Plus that is complementary to the Brand.

Additionally, our short-form video content, including our branded short-form video content known as *Sips*, is typically exhibited through online video content distribution and social media platforms, such as YouTube, Facebook, Yahoo, Diply, Gateway Media, SheKnows, Rumble and Liquid Social among others, as well as on the social media of *Chicken Soup for the Soul*, A Plus and our sponsors.

**Corporate Information**

We are a Delaware corporation formed on May 4, 2016. CSS Productions, our predecessor and immediate parent company, was formed in December 2014 by CSS, and initiated operations in January 2015. We were formed to create a discrete entity focused on video content opportunities using the Brand. In connection with our succession to the operations of CSS Productions, all video content assets owned by CSS and any of its affiliates, including all rights and obligations related thereto, were transferred to us upon formation on May 4, 2016. Thereafter, CSS Productions' operating activities ceased, and the Company continued the business operations of producing and distributing the video content.

In May 2016, pursuant to the terms of the contribution agreement among CSS, CSS Productions and the Company (the “CSS Contribution Agreement”), all video content assets (the “Subject Assets”) owned by CSS, CSS Productions and their CSS subsidiaries were transferred to the Company in consideration for its issuance to CSS Productions of 8,600,568 shares of the Company’s Class B common stock. Since the date of the CSS Contribution Agreement, CSS Productions has transferred certain of these shares of Class B common stock to third parties in certain transactions. Concurrently with the consummation of the CSS Contribution Agreement, certain rights to receive payments under certain agreements comprising part of the Subject Assets owned by Trema, LLC (“Trema”), a company principally owned and controlled by William J. Rouhana, Jr., the Company’s chairman and chief executive officer, were assigned to the Company under a contribution agreement (the “Trema Contribution Agreement”) in consideration for the Company’s issuance to Trema of 159,432 shares or our Class B common stock.

Thereafter, CSS Productions’ operating activities ceased, and the Company continued the business operations of producing and distributing the video content.

**JOBS Act Accounting Election**

The Company is an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has irrevocably elected to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

**Use of Non-GAAP Financial Measure**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). We use a non-GAAP financial measure to evaluate our results of operations and as a supplemental indicator of our operating performance. The non-GAAP financial measure that we use is Adjusted EBITDA. Adjusted EBITDA (as defined below) is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. Due to the significance of non-cash and non-recurring expenses recognized for the three months ended March 31, 2017 and 2016, and the likelihood of material non-cash and non-recurring expenses to occur in future periods, we believe that this non-GAAP financial measure enhances the understanding of our historical and current financial results. Further, we believe that Adjusted EBITDA enables our board of directors and management to analyze and evaluate financial and strategic planning decisions that will directly effect operating decisions and investments. The presentation of Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items or by non-cash items. This non-GAAP financial measure should be considered in addition to, rather than as a substitute for, our actual operating results included in our condensed consolidated financial statements. See “*Use of non-GAAP Financial Measure*” below for further discussion.

**Reporting Segment**

We operate in one reportable segment, the production and distribution of video content, and currently operate in the United States and internationally. We have entered into a distribution agreement with a company located in the United States that provides for the distribution of an episodic television series in Europe.

**Seasonality and Cyclicality**

Revenue derived from our long-form and short-form production activities has been cyclical as a result of the timing of sponsorship agreements funding those activities. To date, this has affected our production schedules and hence, our revenue, since we recognize revenue as each episode becomes available for delivery or becomes available for, and for short-form online videos, as the videos are posted to a website for viewing. As a result, we have reported the vast majority of our revenue in the fourth quarter of each year.

For 2018 and beyond, we will seek to sign some sponsorship contracts, and to begin production of some series, throughout the year which should result in more balanced revenue across all quarters of each year over time.

## Financial Results of Operations

### Revenue

Our television revenue is derived primarily from corporate and charitable sponsors that pay us for the production of half-hour or one-hour episodic television programs as well as short-form video content.

Our online revenue is derived from content generated under our distribution agreement with A Plus, a digital media company.

### Cost of Revenue

Our cost of revenue is derived from the amortization of capitalized programming costs relating to both television and short-form online videos. We record cost of revenue based on the individual-film-forecast method. This method requires costs to be amortized in the proportion that current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production. Our costs are fixed for each series before we begin production. We have a growing list of independent production companies that we work with.

### Selling, General and Administrative Expenses

Our selling, general and administrative expenses includes salaries and benefits, non-cash share-based compensation, public relations and investor relations fees, outside director fees, professional fees and other overhead. A significant portion of selling, general and administrative expenses are covered by our management agreement with CSS, as noted below.

### Management and License Fees

We pay management fees of five percent of our gross revenue to CSS pursuant to a Management Services Agreement. CSS provides us with the operational expertise of its personnel, and we also receive other services, including accounting, legal, marketing, management, data access and back office systems, office space and equipment usage. We believe that the terms and conditions of the CSS Management Services Agreement are more favorable and cost effective to us than if we hired the full staff to operate the company.

We pay license and marketing support fees of five percent of our gross revenue to CSS pursuant to a License Agreement, which we refer to as the CSS License Agreement. Four percent of this fee is a recurring license fee for the right to use all video content of the Brand. One percent of this fee relates to marketing support activities through CSS' email distribution, blogs and other marketing and public relations resources. We believe that the terms and conditions of the CSS License Agreement, which provides us with the rights to use the trademark and intellectual property in connection with our video content, are more favorable to us than any similar agreement we could have negotiated with an independent third party.

### Interest Expense

Our interest expense is comprised of cash interest paid on the Term Notes and Credit Facility for the three months ended March 31, 2017. We repaid the Term Notes and Credit Facility with part of the IPO proceeds in August 2017. The Credit Facility, which totaled $4.5 million, was available to the Company to fund working capital and growth and was set to expire in January 2019. See "*Liquidity and Capital Resources*" below for a full description of the Term Notes and Credit Facility.

For the three months ended March 31, 2017, we also recorded significant non-cash based interest as a result of the discount for the fair value of the Class W warrants that were issued with the Term Notes and the Credit Facility. In addition, financing costs incurred to complete the sale of Term Notes and to establish the Credit Facility were amortized over the term of the related debt.

### Income Taxes

We provide for federal and state income taxes currently payable, as well as those deferred resulting from temporary differences between reporting income and expenses for financial statement purposes versus income tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable. The effect of the change in the tax rate is recognized as income or expense in the period of the enacted change in tax rate. A valuation allowance is established, when necessary, to reduce deferred income taxes to the amount that is more-likely-than-not to be realized.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2017 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2016**

As noted above under "*Seasonality and Cyclicality*", to date the vast majority of our revenue, and therefore our earnings, was recognized in the fourth quarter of the year. We recognize television revenue as each episode becomes available for delivery or becomes available for broadcast, or if already available when an episode is licensed in other media or territories. For short-form online videos, we recognize revenue as the videos are first posted to a website for viewing. For 2018 and beyond, we will seek to sign sponsorship contracts, and to begin production of series throughout the year, which should result in more balanced revenue across all quarters of each year over time. As a result, in 2018 and thereafter, we expect our revenue and profits to be more evenly distributed among our fiscal quarters, with our fourth quarter revenue and Adjusted EBITDA continuing to account for a majority of the annual total.

**Revenue**

The following table presents revenue line items for the three months ended March 31, 2017 and 2016 and for the period-over-period dollar and percentage changes for those line items:

| | Three Months Ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | % of revenue | 2016 | % of revenue | Change Period over Period | |
| **Revenue:** | | | | | | |
| Television | $ 1,259,360 | 89% | $ 1,113,637 | 100% | $ 145,723 | 13% |
| Online | 157,738 | 11% | - | 0% | 157,738 | * |
| **Total revenue** | $ 1,417,098 | 100% | $ 1,113,637 | 100% | $ 303,461 | 27% |

*Not Meaningful

Revenue increased by $303,461, or 27%, for the three months ended March 31, 2017 compared to 2016. This increase was primarily due to an increase in television and short-form video production based on the number of episodes that became available for delivery or became available for broadcast during the respective periods.

Television revenue

We recognize television and short-form video production revenue as each episode becomes available for delivery or becomes available for broadcast or if already available when an episode is licensed in other media or territories.

In the three months ended March 31, 2017, revenue was primarily recognized relating to the *Chicken Soup for the Soul* original productions as follows:

- *Chicken Soup for the Soul's Hidden Heroes* season 2 on the CBS Network; and
- *Project Dad* revenue related to an international distribution agreement with Rive Gauche.

In the three months ended March 31, 2016, revenue was primarily recognized relating to the *Chicken Soup for the Soul* original production of *Chicken Soup for the Soul's Hidden Heroes* season 1 on the CBS Network.

With our growing library of *Chicken Soup for the Soul* original productions, we expect to be able to obtain an increasing percent of our television revenue from library licensing as well as from newly created programs.

Online revenue

Most of our online revenue recognized for the three months ended in 2017 was derived from the A Plus Distribution Agreement. Producer payments due per the A Plus Distribution Agreement are recorded as a reduction to our recorded amount of revenue. Online revenue is also generated from advertising from these series and from our short-form video content, including our *Sips.*

Online revenue is recognized when videos are first posted to a website for viewing.

**Cost of Revenue**

The following table presents cost of revenue line items for the three months ended March 31, 2017 and 2016 and the period-over-period dollar and percentage changes for those line items:

| | Three Months Ended March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | % of revenue | 2016 | | % of revenue | Change Period over Period | | |
| **Cost of revenue:** | | | | | | | | | |
| Programming costs amortization | $ | 474,206 | 33% | $ | 502,675 | 45% | $ | (28,469) | -6% |
| **Gross profit** | $ | 942,892 | 67% | $ | 610,962 | 55% | $ | 331,930 | 54% |
| ***Gross profit margin*** | | *67%* | | | *55%* | | | *12%* | |

Cost of revenue consists of amortization of programming costs for our television and short-form videos. The amortization is recognized in the proportion that the current period's revenue bears to management's estimate of ultimate revenue expected to be recognized from each production and film and to the extent that episodes were recognized as revenue by us. We initially capitalize our programming costs incurred to produce and develop our long-form and short-form video content. We capitalize all direct production and financing costs, capitalized interest, when applicable, and production overhead.

For the three months ended March 31, 2017, cost of revenue consisted of amortization of programming costs for our long-form episodic series, *Chicken Soup for the Soul's Hidden Heroes* seasons 1 and 2 to the extent the episodes were recognized as revenue. For same period in 2016, cost of revenue consisted primarily of amortization of programming costs for *Chicken Soup for the Soul's Hidden Heroes* season 1, to the extent the episodes generated revenue that was recognized in the period.

The costs of producing our long-form and short-form video content are amortized using the individual-film-forecast method. As noted above, this method provides that costs are amortized to cost of revenue in the proportion that the current period's revenue compares to our estimate of the ultimate revenue expected to be recognized, which spans several years.

**Operating expenses**

The following table presents operating expense line items for the three months ended March 31, 2017 and 2016 and the period-over-period dollar and percentage changes for those line items:

| | Three Months Ended March 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | % of revenue | 2016 | | % of revenue | Change Period over Period | | |
| **Operating expenses:** | | | | | | | | | |
| Selling, general and administrative | $ | 260,008 | 18% | $ | 112,325 | 10% | $ | 147,683 | 131% |
| Management and license fees | | 141,710 | 10% | | 111,364 | 10% | | 30,346 | 27% |
| **Total operating expenses** | $ | 401,718 | 28% | $ | 223,689 | 20% | $ | 178,029 | 80% |

Including non-cash share-based compensation, our total operating expenses was 28% of total revenue for the three months ended March 31, 2017 compared to 20% in same period in 2016 and increased in absolute dollars by $178,029. This increase was primarily due to non-cash share-based compensation expense in 2017.

The following table presents selling, general and administrative expense line items for the three months ended March 31, 2017 and 2016 and the period-over-period dollar and percentage changes for those line items:

| | Three Months Ended March 31, 2017 | | 2016 | | Change Period to Period | | |
|---|---|---|---|---|---|---|---|
| Payroll, benefits and commissions | $ | 28,878 | $ | 87,846 | $ | (58,968) | -67% |
| Share-based compensation | | 132,785 | | - | | 132,785 | * |
| Outside professional services | | 46,810 | | 680 | | 46,130 | * |
| Public company costs and expenses | | 18,750 | | - | | 18,750 | * |
| Other costs and expenses | | 32,785 | | 23,799 | | 8,986 | 38% |
| | $ | 260,008 | $ | 112,325 | $ | 147,683 | 131% |

* Not Meaningful

Excluding non-cash share-based compensation, our selling, general and administrative expenses increased by $14,898 for the three months ended March 31, 2017 compared to 2016.

Effective January 1, 2017, we adopted our 2017 Long Term Incentive Plan (the "Plan") to attract and retain certain employees. The Plan currently allows us to issue up to one million common stock equivalents subject to the terms and conditions of the Plan. In January 2018, our board approved an increase in the Plan to 1.25 million share equivalents. The Plan generally provides for quarterly and bi-annual vesting over terms ranging from two to three years. We account for the Plan as an equity plan.

During the three months ended March 31, 2017, we issued stock options pursuant to the Plan. We recognize these stock options at fair value determined by applying the Black Scholes options pricing model to the grant date market value of the underlying common shares. The non-cash share-based compensation expense is amortized on a straight-line basis over their respective vesting periods. For the three months ended March 31, 2017, we recognized $116,600 of non-cash share-based compensation expense. We also recognized $16,185 of non-cash share-based compensation expense for share awards issued to our outside Directors.

Payroll, benefits and commissions expense decreased by $58,968 or 67% in the three months ended March 31, 2017 compared to the prior year period. This decrease is primarily due to the increase in payroll, benefits and commissions related to programming overhead costs that were capitalized.

Our outside professional services increased by $46,130 in the three months ended March 31, 2017 compared to the prior year period. We utilized public relations and investor relations firms leading up to our IPO and continue to use them now that we are a publicly traded company.

Public company costs and expenses include costs incurred to establish us as a public company prior to our IPO. This primarily represents cash compensation paid to our board of directors in the three months ended March 31, 2017.

**Management and License Fees**

We incurred management and license fees to CSS equal to 10% of the total revenue reported for each of the three months ended March 31, 2017 and 2016. See "*Affiliate Resources and Obligations*" below for further discussion relating to the management services agreement and the license agreement. As indicated above, we believe that the terms and conditions of these agreements are more favorable to us than any similar agreements we could have negotiated with an independent third parties.

**Interest Expense**

The following table presents cash based and non-cash based interest expense for the three months ended March 31, 2017 and 2016.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2017** | **2016** |
| Cash Based: | | |
| Term Notes | $ 50,002 | $ - |
| Revolving line of credit | 40,737 | - |
| | 90,739 | - |
| Non-Cash Based: | | |
| Amortization of debt discount | 363,211 | - |
| Amortization of deferred financing costs | 21,876 | - |
| | 385,087 | - |
| | $ 475,826 | $ - |

We incurred interest expense on our outstanding Term Notes prior to their repayment from the net proceeds of our IPO, and on net advances under our Credit Facility, prior to its pay down. We also recorded non-cash based interest discount equal to the amortization of the fair value of the Class W warrants that were issued with the Term Notes and the Credit Facility. Financing costs incurred to complete the sale of Term Notes and to establish the Credit Facility are also amortized to non-cash based interest over the respective terms. Prior to their repayment, the Term Notes bore interest at 5% per annum. Any advances we receive under the Credit Facility bore interest at 5% per annum, plus an annual fee equal to 0.75% of the unused portion of the Credit Facility. See "*Liquidity and Capital Resources*" below, for a full description of the Term Notes and the Credit Facility.

The sale of Term Notes first occurred in July 2016. The aggregate principal balance sold by December 31, 2016 was $2,970,000 and by May 2017, the aggregate principal balance sold was $5,000,000. The net advances outstanding under the Term Notes were $4,895,000 at March 31, 2017. In June 2017, at the option of certain holders of the Term Notes, the Company converted $918,000 of Term Notes into 102,060 Class A common shares. Immediately after our IPO, the aggregate principal balance outstanding of $4,082,000 was paid in full.

Advances under the Credit Facility first occurred in May 2016. The net advances outstanding were $3,800,000 at March 31, 2017 and $3,480,000 at December 31, 2016. Immediately after our IPO, the net advance balance of $4,500,000 was paid in full. In April 2018, net advances drawn on the Credit Facility subsequent to our IPO was repaid in full from the proceeds of the Commercial Loan and the Credit Facility was terminated by the Company and the Lender.

**Provision for Income Taxes**

The Company's provision for income taxes consists of federal and state taxes in amounts necessary to align our tax provision to the effective rate that we expect for the full year. We recorded an income tax provision of $199,000 and $162,000 for the three months ended March 31, 2017 and 2016, respectively.

Our effective rate is impacted by permanent differences which consist primarily of amortization of debt discounts included in interest expense for the three months ended March 31, 2017, and the impact of incentive stock options issued under the Company's Long-Term Incentive Plan for March 31, 2017.

Temporary timing differences consist primarily of net programming costs being deductible for tax purposes in the period incurred (under Internal Revenue Code Section 181) as contrasted to the capitalization and amortization for financial reporting purposes under the guidance of ASC 926 — *Entertainment — Films*. Additionally, the Company amortized, for tax purposes only, an intangible asset under Section 197 of the Internal Revenue Code, with such amortization not reported in the consolidated financial statements.

**Affiliate Resources and Obligations**

<u>CSS License Agreement</u>
In May 2016, we entered into a trademark and intellectual property license agreement with CSS, which we refer to as the "CSS License Agreement." Under the terms of the CSS License Agreement, we have been granted a perpetual, exclusive, worldwide license to produce and distribute video content using the *Chicken Soup for the Soul* brand and related content, such as stories published in the *Chicken Soup for the Soul* books. We paid CSS a one-time license fee of $5 million comprised of a $1.5 million cash payment and the concurrent issuance to CSS of the CSS License Note, having a principal amount of $3.5 million and bearing interest at 0.50% per annum. The CSS License Note was repaid on September 14, 2016.

We are also obligated to pay CSS an incremental recurring license fee equal to 4% of our gross revenue for each calendar quarter, and a marketing fee of 1% of our gross revenue for each calendar quarter, with each quarterly fee payable on or prior to the 45$^{th}$ day after the end of the calendar quarter to which it relates. Under the terms of the CSS License Agreement, the first quarterly fee was payable by us with respect to the quarter ended March 31, 2016, as CSS had already been rendering services to our predecessor with respect to the video content business. Provided that the CSS License Agreement remains in place, CSS has agreed that it will not engage, and will not cause or permit its subsidiaries (other than us) to engage, in the production or distribution of video content, including that which is unrelated to the *Chicken Soup for the Soul* brand, except in connection with the marketing of their other products and services.

We believe that the terms and conditions of the CSS License Agreement, which provides us with the rights to use the trademark and intellectual property in connection with our video content, are more favorable to us than any similar agreement we could have negotiated with an independent third party.

<u>CSS Management Agreement</u>
In May 2016, we entered into a management services agreement, that has an initial term of five years and automatically renews for additional one-year terms at the discretion of the parties thereto, which we refer to as the "CSS Management Agreement." Under the terms of the CSS Management Agreement, we are provided with the broad operational expertise of CSS and its subsidiaries and personnel, including the services of our chairman and chief executive officer, Mr. Rouhana, our vice chairman and chief strategy officer, Mr. Seaton, our senior brand advisor and director, Ms. Newmark, and our chief financial officer, Mr. Pess.

The CSS Management Agreement also provides for services, such as accounting, legal, marketing, management, data access and back-office systems, and provides us with office space and equipment usage. We are obligated to pay CSS a management fee equal to 5% of our gross revenue for each calendar quarter, with each quarterly payable on or prior the 45$^{th}$ day after the end of the calendar quarter to which it relates. The first quarterly fee was payable by us with respect to the quarter ended March 31, 2016, as CSS had already been rendering services to our predecessor with respect to the video content business.

In addition, for any sponsorship which is arranged by CSS or its affiliates for (i) our video content or (ii) a multi-element transaction for which we receive a portion of such revenue and CSS receives the remaining revenue (for example, a transaction that relates to both our video content and CSS' printed products), we shall pay a sales commission to CSS equal to 20% of the portion of such revenue we receive. Each sales commission shall be paid within 30 days of the end of the month in which we receive it. If CSS collects the entire fee from such multi-element transaction, CSS will remit our portion of such fee to us after deducting its sales commission. There were no sales commissions earned or paid to CSS during the three months ended March 31, 2017 and 2016.

We believe that the terms and conditions of the CSS Management Agreement are more favorable and cost effective to us than if we hired the full staff to operate the company.

A Plus Distribution Agreement

In September 2016, we entered into the A Plus Distribution Agreement. A Plus develops and distributes high quality, empathetic short-form videos and articles to millions of people worldwide. The A Plus Distribution Agreement has an initial term ending in September 2023. Under the terms of the A Plus Distribution Agreement, we have the exclusive worldwide rights to distribute all video content (in any and all formats) and all editorial content (including articles, photos and still images) created, produced, edited or delivered by A Plus. Under the terms of the A Plus Distribution Agreement, we paid A Plus an advance of $3 million (the "A Plus Advance"). We recoup the A Plus Advance by retaining the portion of gross revenue otherwise payable by the Company to A Plus and applying such A Plus Revenue to the recoupment of the A Plus Advance. We will not pay A Plus its portion of gross revenue until such time as the A Plus Advance has been recouped in full. A Plus is a digital media company founded, chaired, and partially owned by actor and investor Ashton Kutcher. Mr. Kutcher owns 23%, third parties own 2%, and our affiliate, Chicken Soup for the Soul Digital, LLC, owns 75%, of A Plus.

**Use of Non-GAAP Financial Measures**

In addition to the results reported in accordance with GAAP, we use a non-GAAP financial measure, which is not recognized under GAAP, as a supplemental indicator of our operating performance. This non-GAAP financial measure is provided to enhance the readers understanding of our historical and current financial performance. Management believes that this measure provides useful information in that it excludes amounts that are not indicative of our core operating results and ongoing operations and provide a more consistent basis for comparison between periods. The non-GAAP financial measure that we currently use is Adjusted EBITDA which is defined as follows:

"Adjusted EBITDA" means earnings before interest, taxes, depreciation, amortization and non-cash share-based compensation expense and adjustments for other identified charges such as costs incurred to form our company and to prepare for the offering of our Class A common stock to the public, prior to our IPO. Identified charges also include the cost of maintaining a board of directors prior to being a publicly traded company. As our IPO has been completed, director fees are now deducted from Adjusted EBITDA. Adjusted EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other companies. We believe Adjusted EBITDA to be a meaningful indicator of our performance that provides useful information to investors regarding our financial condition and results of operations. The most comparable GAAP measure is operating income.

**Reconciliation of Unaudited Historical Results to Adjusted EBITDA**

A reconciliation of net (loss) income to Adjusted EBITDA is as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net (loss) income as reported | $ (133,646) | $ 225,274 |
| Provision for income taxes | 199,000 | 162,000 |
| Interest expense, net of interest income (a) | 475,820 | - |
| Share-based compensation expense | 132,785 | - |
| Organization costs and directors costs (b) | 18,750 | - |
| **Adjusted EBITDA** | $ 692,709 | $ 387,274 |

(a) Includes non-cash amortization of debt discounts and amortization of deferred financing costs of $385,087 and $0 for the three months ended March 31, 2017 and 2016, respectively.

(b) Includes the costs incurred to form our company and to prepare for the initial offering of our common stock to the public. This also includes the costs of maintaining a board of directors prior to being a publicly traded company, and for the three months ended March 31, 2017, this includes the costs of utilizing public relations and investor relations firms totaling $17,717, prior to being a publicly traded company.

## LIQUIDITY AND CAPITAL RESOURCES

As described above under "*Recent Developments*", significant and material events have occurred since March 31, 2017 as follows:

### Initial Public Offering of Shares of Class A Common Stock

On August 17, 2017, we completed our IPO of $30 million consisting of 2,500,000 shares of Class A common stock ("Class A Shares") at an offering price of $12.00 per share. The Class A Shares offered and sold in the IPO were comprised of (a) an aggregate of 2,241,983 of our newly issued Class A Shares and (b) an aggregate of 258,017 issued and outstanding Class A Shares that were sold by certain non-management, non-affiliated existing stockholders ("Selling Stockholder Shares"). We did not receive any of the proceeds from the sale of Selling Stockholder Shares.

In connection with the completion of our IPO, the Class A Shares were approved for listing on the Nasdaq Global Market under the symbol "CSSE".

Our IPO resulted in gross cash proceeds to the Company of $26.9 million and $24.6 million of net cash proceeds, after deducting cash selling agent discounts and commissions and offering expenses. The net proceeds were used to fully repay $4.1 million of senior secured notes payable ("Term Notes") and $4.5 million of senior secured notes payable under the revolving line of credit ("Credit Facility"). The remaining proceeds will be used by us for general corporate purposes including working capital, acquisition of video content and strategic transactions.

Since our IPO occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our balance sheet and cash flows do not reflect the net proceeds we derived from our IPO, nor the repayment of the Term Notes and Credit Facility noted above.

### Acquisition of Screen Media

On November 3, 2017, we acquired all of the membership interests of Screen Media for approximately $4.9 million in cash and the issuance of 35,000 shares of our Class A common stock and Class Z warrants of the Company exercisable into 50,000 shares of our Class A common stock at $12 per share (the "Acquisition"). Screen Media operates Popcornflix®, an advertiser-supported direct-to-consumer online video service and distributes television series and films worldwide.

In accordance with ASC 805, "*Business Combinations*" ("ASC 805"), the Acquisition was accounted for by applying the acquisition method of accounting, which requires, among other things, that the assets acquired and the liabilities assumed in a business combination be measured at their fair values as of the closing date of the transaction.

Since the Acquisition occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our balance sheet, statements of operations and cash flows do not reflect Screen Media's results of operations.

**Commercial Loan**

On April 27, 2018, we entered into the Commercial Loan. The Commercial Loan provides us both a term loan facility and a revolving line of credit facility totaling $7.5 million, to be used by us for working capital and other purposes. The term loan of $5.0 million was advanced to us at closing. The term loan bears interest at a rate of 5.75% per annum and is payable monthly together with principal, over a five-year period.

The revolving line of credit of $2.5 million bears interest at the prime rate plus 1.5% per annum, and interest only is payable monthly over a three-year period, until such time as the loan is renewed or becomes due. Approximately $2.2 million of the revolving line of credit was advanced to us at closing. Simultaneously with the closing of the Commercial Loan, the Credit Facility was repaid in full and the Credit Facility was terminated by us and the Lender.

Since the closing of the Commercial Loan occurred after March 31, 2017, the date of the condensed consolidated financial statements included in this Quarterly Report on Form 10Q, our balance sheet and cash flows do not reflect the proceeds of the Commercial Loan.

**Repurchase Program**

On March 27, 2018, our board of directors approved a stock repurchase program (the "Repurchase Program") that enables us to repurchase up to $5 million of our Class A common stock prior to April 30, 2020. All repurchases under the Repurchase Program shall be made in compliance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the "Act").

Under the Repurchase Program, we may purchase shares of Class A common stock through various means, including open market transactions, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. The Repurchase Program may be modified, suspended or terminated at any time by our board of directors. Repurchases under the Repurchase Program will be funded from our existing cash and cash equivalents or future cash flow and equity or debt financings.

As of May 25, 2018, we have repurchased, subject to the maximum amounts permitted under the Act, 41,949 shares of our Class A common stock pursuant to the Repurchase Program.

**Cash Requirements**

We believe our cash and cash equivalents on hand should be sufficient to meet our cash requirements for at least the next twelve months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. It is possible that we could incur unexpected costs and expenses in the future, fail to collect significant amounts that may be owed to us, or experience unexpected cash requirements that would force us to seek additional financing. If we seek additional financing, we would likely issue additional equity or debt securities, and as a result, stockholders may experience additional dilution or the new debt or equity securities may have rights, preferences or privileges more favorable than those of existing holders of our debt or equity. In this event, if additional financing is not available or is not available on acceptable terms, we may be required to delay or reduce the scope of our video content production plans.

**Financing Plan Prior to IPO**

Pursuant to our financing plan prior to the IPO, we utilized our Credit Facility, primarily for working capital, and we sold Term Notes and Class A common stock in private placements as follows:

<u>Credit Facility</u>
As noted above, with the closing of the Commercial Loan, the Credit Facility was repaid in full and the Credit Facility was terminated by the Company and the Lender.

On May 12, 2016, we entered into the Credit Facility with the facility lender, an affiliate of Mr. Rouhana. Under the terms of the Credit Facility, as amended as of December 12, 2016, January 24, 2017 and March 27, 2017, we may borrow, repay and reborrow up to an aggregate of $4.5 million through January 2019. Our payment obligations under the Credit Facility were senior obligations and secured by a first priority security interest in all of our assets, thus having the same priority as the security interest granted by us to the holders of the Term Notes, prior to their repayment. The proceeds of the loans made under the Credit Facility were used by us for working capital and general corporate purposes.

Loans under the Credit Facility bore interest at 5% per annum, payable monthly in arrears in cash. We were also obligated to pay the facility lender an annual fee equal to 0.75% of the unused portion of the Credit Facility. As previously noted, the Credit Facility has been repaid in full and terminated by the parties.

Debt Private Placement

Pursuant to our financing plan prior to our IPO, we sold a total of $5.0 million of Term Notes and Class W warrants in a private placement. Beginning in July 2016 and through December 31, 2016, we sold in a private placement ("Debt Private Placement") to accredited investors $3.0 million aggregate principal amount of Term Notes and Class W warrants to purchase an aggregate of 252,450 shares of Class A common stock. From January 1, 2017 through May 3, 2017, we sold an additional $2.0 million aggregate principal amount of Term Notes and Class W warrants to purchase an additional aggregate of 172,550 shares of Class A common stock in the Debt Private Placement.

The Term Notes required interest at 5% per annum, payable monthly in arrears in cash. The principal of the Term Notes (including all accrued, but unpaid interest thereon) were originally payable by us on the earlier of (a) June 30, 2017 and (b) the third business day following consummation of (i) an initial public offering (including this offering) and (ii) any future equity offering (other than as a result of the exercise of our Class W warrants) resulting in gross proceeds to us of at least $7.0 million.

The Term Notes were repaid in full from the proceeds of the IPO.

Equity Private Placements

Pursuant to our financing plan prior to our IPO, we sold a total of approximately $2.5 million of Class A common stock and warrants in private placements. Beginning in June 2016 and through November 2016, we sold in a separate private placement to accredited investors $1.0 million of units, consisting of an aggregate of 170,960 shares of Class A common stock and Class W warrants to purchase an aggregate of 51,288 shares of Class A common stock.

Beginning in December 2016 and through March 2017, we sold in a separate private placement to accredited investors $975,710 of units, consisting of an aggregate of 150,112 shares of Class A common stock and Class W warrants to purchase an aggregate of 45,034 shares of Class A common stock.

**Cash Flows**

To date, our principal source of liquidity has been from our financing activities. In 2016, our principal source of liquidity was primarily derived from our investing activities. Our cash and cash equivalents balance was $21,127 as of March 31, 2017 and $507,247 as of December 31, 2016.

Cash flow information for the three months ended March 31, 2017 ("2017") and for the three months ended March 31, 2016 ("2016") is as follows:

| | Three Months Ended March 31, | | Change in | |
|---|---|---|---|---|
| | 2017 | 2016 | Dollars | Percentage |
| Cash provided by (used in): | | | | |
| Operating activities | $ (2,858,210) | $ (2,677,324) | $ (180,886) | 6.8% |
| Investing activities | (798,572) | 2,706,576 | (3,505,148) | -129.5% |
| Financing activities | 3,170,662 | - | 3,170,662 | * |
| Net (decrease) increase in cash and cash equivalents | $ (486,120) | $ 29,252 | $ (515,372) | * |

*Not meaningful

Operating Activities

For the three months ended in 2017, our operating activities required a net use of cash totaling $2.9 million. This net use of cash from operating activities resulted primarily from an increase in prepaid distribution costs of $1.7 million pursuant to the A Plus Distribution Agreement, our investment in programming costs of $0.9 million and an increase in accounts receivable of $0.9 million due from sponsors of our television series. This was offset, in part, by non-cash share-based compensation expense and amortization of programming costs totaling $0.6 million.

For the three months ended in 2016, our operating activities required a net use of cash totaling $2.7 million. This net use of cash resulted primarily from a decrease in deferred revenue of $3.3 million, our investment in programming costs of $.08 million offset, in part, by an increase in accounts payable of $0.6 million and amortization of programming costs of $0.5 million.

Investing Activities

For the three months ended in 2017 and 2016, our due from affiliated companies increased by $0.8 million and decreased by $2.7 million, respectively.

Financing Activities

For the three months ended in 2017, our financing activities provided net cash of $3.2 million, consisting primarily of $1.0 million raised in sales of our common stock in private placements prior to our IPO, $0.3 million of net proceeds we received under the Credit Facility and $1.9 million of net proceeds received from the issuance of Term Notes prior to our IPO.

There were no financing activities for the three months ended in 2016.

**Anticipated Cash Requirements**

Most producers of television series incur significant initial expenditures to produce, acquire, distribute and market episodic television programs and online video content, while revenues from these television programs and online video content may be earned over an extended period of time after their completion, per the requirements of GAAP.

However, our financing strategy is to fund our investment in television programs through payments we receive from sponsors. The net proceeds from our IPO allow us to be more flexible as to payment timing from sponsors and to use cash and cash equivalents on hand to fund production in advance of such sponsor payments. Nevertheless, we do not begin production until we have payment commitments from sponsors in excess of our production costs. As a result, we expect our production activity to be cash flow positive for each series. Additionally, we may acquire businesses or assets, including individual video content libraries that are complementary to our business. Any such transaction could be financed through cash on hand, our cash flow from operations, or new equity or debt financing.

**Critical Accounting Policies and Significant Judgments and Estimates**

This discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are described in more detail in the notes to our condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q, and should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our report on Form 1-A POS for the year ended December 31, 2016. There have been no significant changes in our critical accounting policies, judgments and estimates, since December 31, 2016.

**Recent Accounting Pronouncements**

See Item 1 of Part 1, Condensed Consolidated Financial Statements – Note 3 “*Recent Accounting Pronouncements*”.

**JOBS Act**

We are an emerging growth company (EGC), as defined in the JOBS Act and are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced “Management’s Discussion and Analysis of Financial Condition and Results of Operations” disclosure, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy or information statements, and not being required to adopt certain new and revised accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of the extended time for the adoption of new or revised accounting standards, and, therefore, will not be subject to the same new or revised accounting standards as public companies that are not emerging growth companies.

**Off-Balance Sheet Arrangements**

As of March 31, 2017 and December 31, 2016, we had no off-balance sheet arrangements.

**Effect of Inflation and Changes in Prices**

We do not expect inflation and changes in prices will have a material effect on our operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable to smaller reporting companies.

**Item 4. Controls and Procedures**

**Evaluation of disclosure controls and procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017, the end of the period covered by this Quarterly Report on Form 10-Q.

Based on our evaluation, we believe our disclosure controls and procedures as of the date of our Quarterly Report on Form 10-Q have been designed and are functioning effectively to provide reasonable assurance the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We believe a controls system, no matter how well designed and operated, cannot provide absolute assurance the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance all control issues and instances of fraud, if any, within a company have been detected.

Our independent registered public accounting firm has not performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. As a result, it is possible, had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, material weaknesses and significant control deficiencies may have been identified. However, for as long as we remain an "emerging growth company" as defined in the JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the requirement that our independent registered public accounting firm provide an attestation on the effectiveness of our internal control over financial reporting.

**Changes in internal control over financial reporting**

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

**Item 1 – Legal Proceedings**

In the normal course of business, from time-to-time, the Company may become subject to claims in legal proceedings. Legal proceedings are subject-to inherent uncertainties, and an unfavorable outcome could include monetary damages, and in such event, could result in a material adverse impact on the Company's business, financial position, results of operations, or cash flows.

**Item 1A – Risk Factors**

We are affected by risks specific to us as well as factors that could affect all businesses, including our desire to operate in a global market. The significant factors known to us that could materially adversely affect our business, financial condition, or operating results are set forth in the "*Risk Factors*" section of our Annual Report on Form 10-K for the year ended December 31, 2017.

**Unknown Factors**

Additional risks and uncertainties of which we are unaware or which currently we deem immaterial also may become important factors that affect us.

**Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

Share Issuance and Warrants

Between June 2016 and June 2017, the Company sold a total of an aggregate of approximately $2.5 million of Class A common stock and warrants in private placements.

Beginning in June 2016 and through November 2016, the Company sold in a separate private placement to accredited investors $1.0 million of units, consisting of an aggregate of 170,960 shares of Class A common stock and Class W warrants to purchase an aggregate of 51,288 shares of Class A common stock.

Beginning in December 2016 and through March 2017, the Company sold in a separate private placement to accredited investors $975,710 of units, consisting of an aggregate of 150,112 shares of Class A common stock and Class W warrants to purchase an aggregate of 45,034 shares of Class A common stock.

During May and June 2017, the Company sold in two separate equity private placements, a total of an aggregate of 55,000 shares of Class A common stock and Class Z warrants to purchase an aggregate of 50,000 shares of Class A common stock.

In June 2017, at the election of certain holders of the Company's notes payable ("Term Notes"), the Company converted $918,000 of Term Notes into 102,060 Class A common shares at a conversion price per share of $9 and issued Class Z warrants to purchase an aggregate of 30,618 shares of Class A common stock at $12 per share, to those noteholders that elected to convert.

Stock Option Grants

During the quarter ended March 31, 2017, the Company granted stock options to employees to acquire 455,000 shares of its Class A common stock at a weighted average exercise price of $6.83 per share (the "Options") valued at $1,201,200. The Options were granted pursuant to the Company's 2017 Long Term Incentive Plan. The Options vests quarterly over the three-year period from the date of grant.

**Item 5 – Other Information**

None

**Item 6 – Exhibits**

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which is incorporated herein by reference.

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 32.2 | Certification of Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.* |
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |

* Included herewith.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CHICKEN SOUP FOR THE SOUL ENTERTAINMENT, INC.**
**(Registrant)**

/s/ Daniel M. Pess
Daniel M. Pess
Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Chief Executive Officer
(Principal Executive Officer)

Date: May 30, 2018

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William J. Rouhana, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chicken Soup for the Soul Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 30, 2018

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Chief Executive Officer and Principal Executive Officer

**Exhibit 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel M. Pess, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chicken Soup for the Soul Entertainment, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 30, 2018

/s/ Daniel M. Pess
Daniel M. Pess
Principal Financial Officer

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 30, 2018

/s/ William J. Rouhana, Jr.
William J. Rouhana, Jr.
Principal Executive Officer

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Chicken Soup for the Soul Entertainment, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Date: May 30, 2018

/s/ Daniel M. Pess
Daniel M. Pess
Principal Financial Officer